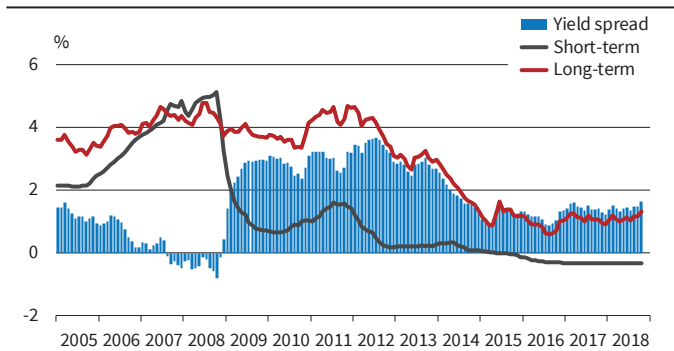


Financial Conditions in the Euro Area

Nominal Interest Rates^a

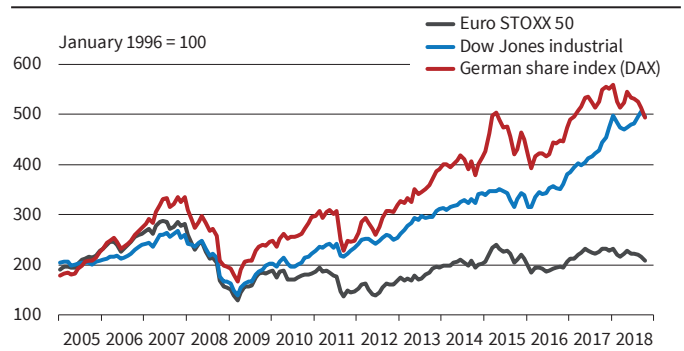


^a Weighted average (GDP weights).
Source: European Central Bank.

© ifo Institute

In the three-month period from August 2018 to October 2018 short-term interest rates remained stable: the three-month EURIBOR rate amounted to - 0.32% in all these months. In comparison the ten-year bond yields grew from 1.15% in August 2018 to 1.31% in October 2018, while the yield spread also increased from 1.47% to 1.63% in the same period of time.

Stock Market Indices

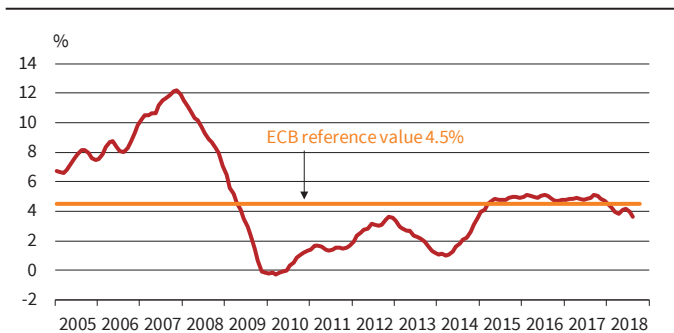


Source: Deutsche Börse; Dow Jones; STOXX.

© ifo Institute

The German stock index DAX decreased in October 2018, averaging 11,686 points compared to 12,185 points in September 2018. The Euro STOXX also decreased from 3,365 to 3,245 in the same period of time. The Dow Jones Industrial was not an exception: it also decreased, averaging 25,609 points in October 2018, compared to 26,219 points in September 2018.

Change in M3^a

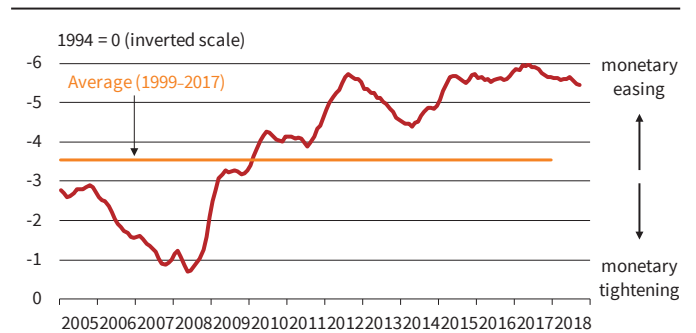


^a Annual percentage change (3-month moving average).
Source: European Central Bank.

© ifo Institute

The annual growth rate of M3 slightly increased to 3.5% in September 2018, from 3.4% in August 2018. The three-month average of the annual growth rate of M3 over the period from July 2018 to September 2018 reached 3.6%.

Monetary Conditions Index



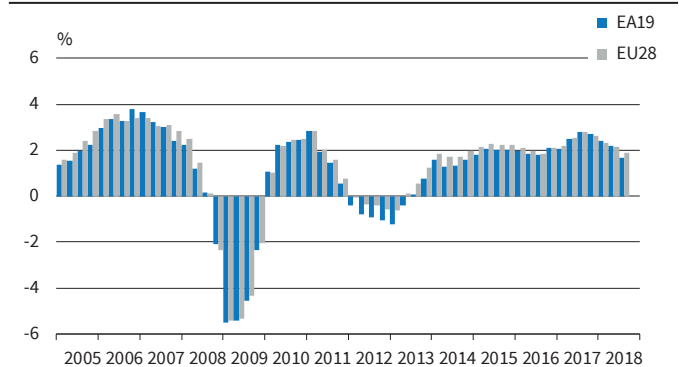
Note: MCI index is calculated as a (smoothed) weighted average of real short-term interest rates (nominal rate minus core inflation rate HCPI) and the real effective exchange rate of the euro.
Source: European Central Bank; calculations by the ifo Institute.

© ifo Institute

Between April 2010 and July 2011 the monetary conditions index remained rather stable. This index then continued its fast upward trend since August 2011 and reached its first peak in July 2012, signalling greater monetary easing. In particular, this was the result of decreasing real short-term interest rates. In May 2017 the index reached the highest level in the investigated period since 2004, and its slow downward trend thereafter continued also in September 2018.

EU Survey Results

Gross Domestic Product in Constant 2010 Prices
Percentage change over previous year



Source: Eurostat.

© ifo Institute

According to the Eurostat estimates, GDP grew by 0.2% in the euro area (EA19) and by 0.3% in the EU28 during the third quarter of 2018, compared to the previous quarter. In the second quarter of 2018 the GDP had also grown by 0.4% in the euro area and by 0.5% in the EU28. Compared to the third quarter of 2017, i.e. year over year, seasonally adjusted GDP rose by 1.7% in the EA19 and by 1.9% in the EU28 in the third quarter of 2018.

EU28 Economic Sentiment Indicator
Seasonally adjusted

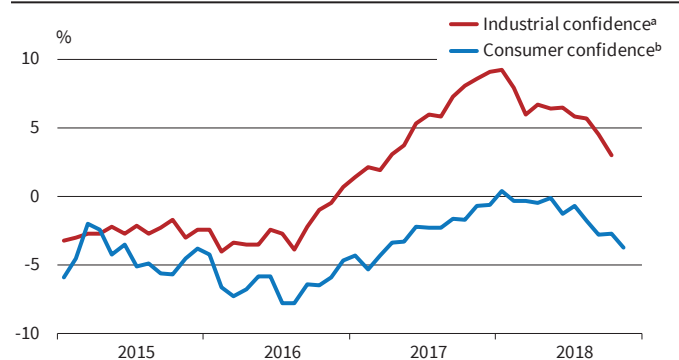


Source: European Commission.

© ifo Institute

In October 2018 the Economic Sentiment Indicator (ESI) decreased in both the euro area (by 1.1 points to 109.8) and the EU28 (by 0.8 points to 110.4). In both zones the ESI stands above its long-term average.

EU28 Industrial and Consumer Confidence Indicators
Percentage balance, seasonally adjusted



Source: European Commission.

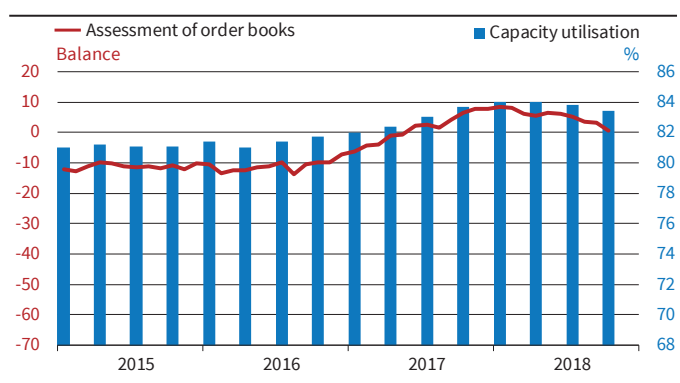
© ifo Institute

In October 2018, the *industrial confidence indicator* decreased by 1.5 in the EU28 and by 1.7 in the euro area (EA19). Yet the *consumer confidence indicator* increased by 0.1 in the EU28 and by 0.2 in the EA19 in October 2018.

^a The industrial confidence indicator is an average of responses (balances) to the questions on production expectations, order-books and stocks (the latter with inverted sign).

^b New consumer confidence indicators, calculated as an arithmetic average of the following questions: financial and general economic situation (over the next 12 months), unemployment expectations (over the next 12 months) and savings (over the next 12 months). Seasonally adjusted data.

EU28 Capacity Utilisation and Order Books in the Manufacturing Industry



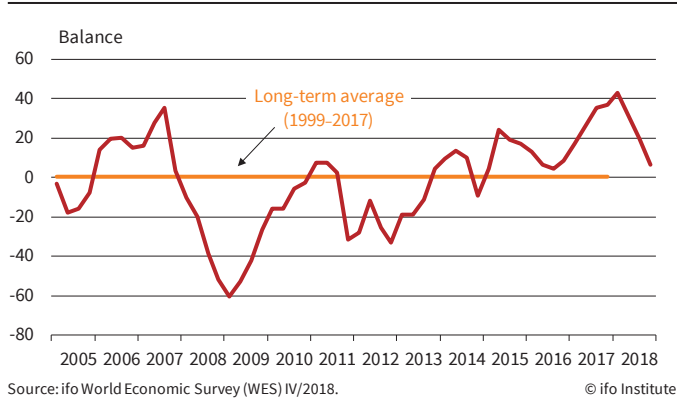
Source: European Commission.

© ifo Institute

Managers' assessment of *order books* reached 0.5 in October 2018, compared to 3.2 in September 2018. In August 2018 the indicator had amounted to 3.5. *Capacity utilisation* decreased to 83.4 in the fourth quarter of 2018, from 83.8 in the third quarter of 2018.

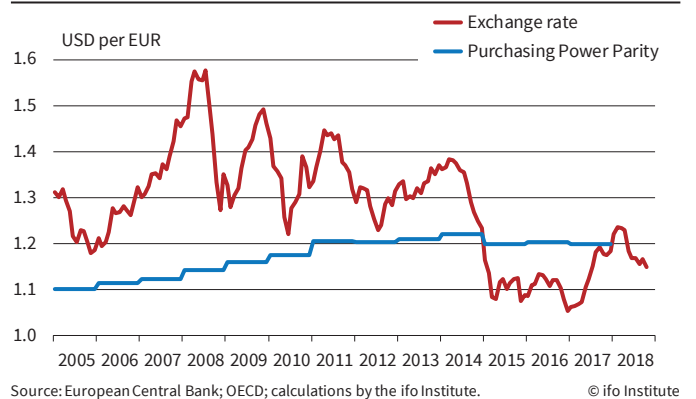
Euro Area Indicators

ifo Economic Climate for the Euro Area



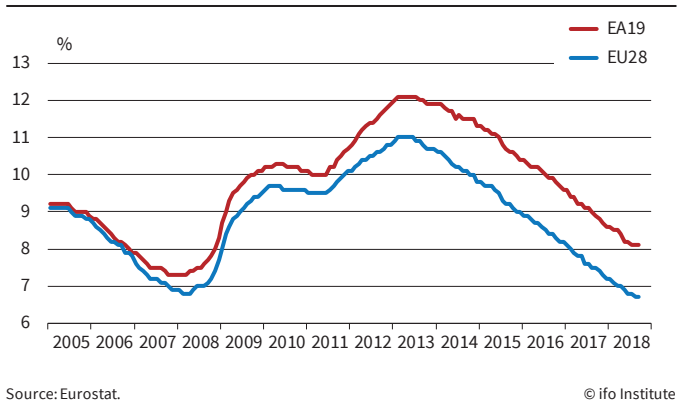
The ifo Economic Climate for the euro area (EA19) fell significantly from 19.6 points in the third quarter of 2018 to 6.6 points in the fourth quarter of 2018, plunging to its lowest level since mid-2016. Experts downwardly revised their assessments of both the current economic situation and their expectations significantly. The euro area's economy is moving into rough waters.

Exchange Rate of the Euro and Purchasing Power Parity



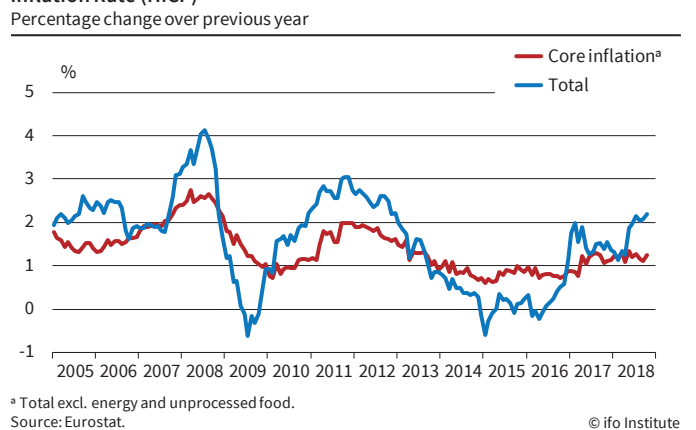
The exchange rate of the euro against the US dollar averaged approximately 1.16 \$/€ between August 2018 and October 2018. (In July 2018 the rate had amounted to around 1.17 \$/€.)

Unemployment Rate



Euro area (EA19) unemployment (seasonally adjusted) amounted to 8.1% in September 2018, stable compared to August 2018. EU28 unemployment rate was 6.7% in September 2018, also stable compared to August 2018. In September 2018 the lowest unemployment rate was recorded in the Czech Republic (2.3%), Germany and Poland (both 3.4%), while the rate was highest in Greece (19.0%) and Spain (14.9%).

Inflation Rate (HICP)



Euro area annual inflation (HICP) was 2.2% in October 2018, up from 2.1% in September 2018. Year-on-year EA19 core inflation (excluding energy and unprocessed foods) amounted to 1.2% in October 2018, again up from 1.1% in September 2018.